New Zealand's Discourse on Executive Remuneration

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Abstract

Purpose: Zajac and Westphal (1995; 2004) found that US companies have transitioned from corporate (or managerial) to agency (or shareholder) logic. This study examines the institutional logic embedded with New Zealand's discourse on executive remuneration, and how it influences the decision-making of remuneration committees.

Design/methodology/approach: Data are collected from 33 semi-structured interviews with 5 executives, 16 non-executive directors, 7 consultants, and 5 representatives of issuers (who produce codes of best practice). The interviews focused on executive remuneration in New Zealand publicly listed companies.

Findings: Non-executive directors draw on a multitude of rationales to justify or legitimise their decisions regarding executive remuneration. The rationales include: agency, consultant, fairness, human resources, market, motivation, pay-for-performance, and responsibility. However, the market rationale dominated the discourse on executive remuneration. The majority of non-executive directors, executives, and consultants interviewed argued that one executive's remuneration should be comparable to another executive's remuneration.

Research limitations/implications: Both the agency and corporate logics have been institutionalised in New Zealand. However, the dominant remuneration rationales fit with the corporate logic, rather than the agency logic.

Practical implications: As the remuneration rationales are taken-for-granted they offer non-executive directors considerable flexibility in deciding how and how much to remunerate executives. Shareholders and regulators need to be aware of this flexibility.

Originality/value: This study develops and tests a theoretical framework for understanding how institutional logics can influence organisational decision-making.

Type: Research paper

Keywords: Executive remuneration; Institutional theory; Discourse analysis

1. Introduction

Pay-for-performance has become a taken-for-granted catchphrase of corporations, shareholders, media, and the public, yet academic research in New Zealand (Andjelkovic et al., 2002; Gunasekarage and Wilkinson, 2002; Roberts, 2005) and overseas (Rost and Osterloh, 2009; Tosi et al., 2000; Devers et al., 2007) has been unable to evidence a statistically and economically significant relationship between CEO pay and firm performance over time. Academic research indicates that CEO pay is related to firm size, rather than firm performance. This lead Bebchuk and Fried (2004) to argue that CEOs have too much power over boards of directors and are able to set their own remuneration.

This research investigates New Zealand's discourse on executive remuneration, particularly the institutional logics (and high-order cultural frames) which people use to understand and justify organisational decision-making. Zajac and Westphal (1995, 2004) found that the agency logic replaced the corporate logic as the dominant explanation of corporate governance and executive remuneration among US corporations in the mid-1980s. However, they did not investigate alternative remuneration rationales such as pay-for-performance and market, which are documented by Wade et al. (1997), St-Onge (2001), and Point and Tyson (2006). Collectively, these studies suggest that isomorphic pressures influence how organisational actors make decisions. Point and Tyson (2006) argues that the language of regulations, codes of practice and corporate annual reports are converging.

Drawing on new institutional sociology, this research examines how organisational actors conceptualise and rationalise executive remuneration decisions. The research questions are:

What institutional logics do organisational actors use to understand and make decisions? How do these institutional logics influence organisational decision-making? The remainder of the paper is organised as follows: literature review, theoretical framework, research method, findings, discussion and conclusion.

2. Literature Review

Institutions are processes and structures which become taken-for-granted by individuals and organisations (DiMaggio and Powell, 1983; Moll et al., 2006). Institutional theory asserts that coercive, normative and mimetic pressure can lead to organisations substantively or symbolically adopting the same structures and processes (DiMaggio and Powell, 1993; Scott, 2008). Regulatory and professional bodies throughout the world have developed codes of practice to mandate or recommend how companies should be governed (Aguilera and Jackson, 2010; Enrione et al.; 2006). It is taken-for-granted that regulatory and professional bodies should produce codes of practice, but the content of these codes varies between countries. Also, companies have implemented similar executive remuneration structures and processes such as remuneration committees and variable pay schemes (Chambers, 2005). However, researchers have rarely studied how these structures and processes have become take-for-granted.

Institutional logics provide the ideas and meaning that persuades individuals and organisations to adopt certain structures and processes (Thorton and Ocasio, 1999). In an exploratory study, Point and Tyson (2006) found that the language of codes of practice and corporate annual reports in Europe are similar; the discourse had become institutionalised. Zajac and Westphal (1995; 2004) argue that there are two institutional logics underpinning corporate governance (see table 1). The agency logic asserts that shareholders should be suspicious of management, whereas the corporate logic asserts that shareholders can trust management and using their specialised expertise, they can make better decisions than shareholders. These institutional logics imply that different structures and processes are required to govern executives.

	Agency Logic	**Corporate Logic**
Assumptions about: *- Top Managers*	Fungible agents	Knowledgeable stewards
- The Firm	Nexus of contracts	Unique institution
Concept of resource allocation	Investor capitalism: Diversified investor	Managerial capitalism: Diversified firm
Links to High-Order Cultural Frames	Logic of capital markets	Norm of professional autonomy
Links to Theories of Organisation	Agency theory (Jensen and Meckling, 1976)	Managerialist theory (Chandler, 1962)
Implications for Governance Practices: *- Compensation*	Incentives align interests	Rewards attract and retain
- Allocation of cash flow	Return excess to investors	Retain and reinvest in firm

Table 1: Institutional Logics and Corporate Governance

(Source: Zajac and Westphal, 2004, p.436)

The agency and corporate logics have different rationales for how executive remuneration should be determined. The agency rationale implies that without variable pay executives would not to act in the best interests of shareholders; whereas the human resources rationale (corporate logic) implies that as long as the level of remuneration is sufficient, executives will act in the best interests of the shareholders. Zajac and Westphal (1995) found that in US companies in the mid-1980s, the agency rationale replaced the human resources rationale in justifying the adoption of long-term incentive plans to shareholders. However, other remuneration rationales were not studied. Wade et al. (1997) and St-Onge et al. (2001) identified other remuneration rationales such as consultant, market, motivation, pay-for-performance, and responsibility (see table 2).

Remuneration Rationales	Explanations of CEO Pay
Agency	Derived from agency theory, the agency rationale describes how the CEO's interests can be aligned with those of shareholders.
Consultant	Remuneration consultants are used to legitimise the CEO's pay and remuneration practices.
Human Resources	Derived from resource dependency theory, the human resources rationale asserts that the CEO is a scarce resource and organisations can use remuneration to attract and retain scarce managerial talent.
Market	The market rationale argues the CEO's pay will depend on the market forces of supply and demand.
Motivation	Derived from expectancy theory, the motivation rationale describes that pay can be used increase the CEO's effort/performance.
Pay-for-Performance	The pay-for-performance rationale argues that to avoid managerial shirking, the CEO's pay should be linked to the firm's (financial) performance.
Responsibility	Derived from the managerial discretion hypotheses, the responsibility rationale states that executive pay rises with their level of responsibility.

Table 2: Remuneration Rationales

Zajac and Westphal (1995; 2004) argue that agency and corporate logics influence organisational decision-making, but did not study whether these rationales are used in the boardroom. For example, boards of directors may want to adopt long-term incentive plans to increase the level of executive remuneration, and use remuneration rationales to legitimise their decisions to shareholders. Olsen and March (2006) argue that organisational decision-making is rational and/or rule-based. It may be that boards of directors (and remuneration committees) draw on various remuneration rationales in order to make decisions that maximise shareholder value.

Alternatively, it may be that boards of directors draw on various remuneration rationales because the remuneration rationales confer legitimacy on their decisions.

While the following studies did not examine institutional logic and remuneration rationales, their findings do shed light on these theoretical constructs. Bender (2004, and 2007) and Main et al. (2008) found that the directors, executives and consultants explained executive remuneration in terms which are consistent with the many of the remuneration rationales. Generally, remuneration committees aim to pay for performance, while conforming to the expectations of shareholders. Further, Perkins and Hendry (2005) found that the market rationale is a key determinant of executive remuneration. Remuneration committees are also concerned with the legitimacy of their decisions and use remuneration rationales to avoid criticism (Main et al., 2008; Ogden and Watson, 2008). However, Beer et al. (2003) found that the pay-for-performance and motivation rationales are used to justify the use of incentive schemes in order to increase the level of executive remuneration, rather than enhance shareholder value.

3. Theoretical Framework

Discourse and action are connected through the decision making of individuals and organisations (see figure 1). Discourse is the realm of ideas and meaning, which is accessed through the production and consumption of texts; whereas, action is the realm of structures and processes (Phillips et al., 2002). Institutional logics influence the preferences, capabilities and decision-making of individuals and organisations. In making decisions, individuals produce texts, which can be temporary or permanent, and carry out actions. For directors and executives, producing texts and carrying out actions are often inseparable. Texts define structures and processes in organisations. As these structures and processes are enacted by individuals and organisations, they can become take-for-granted. Institutions are structures and processes that become self-reproducing, as they enable and constrain future discourse and action. Thus, institutions are underpinned by institutional logics. However, individuals and organisations can change or resist institutions and institutional logics if they are powerful or willing to accept a loss in legitimacy, or there are conflicting institutions and/or institutional logics (e.g. agency vs. corporate logic).

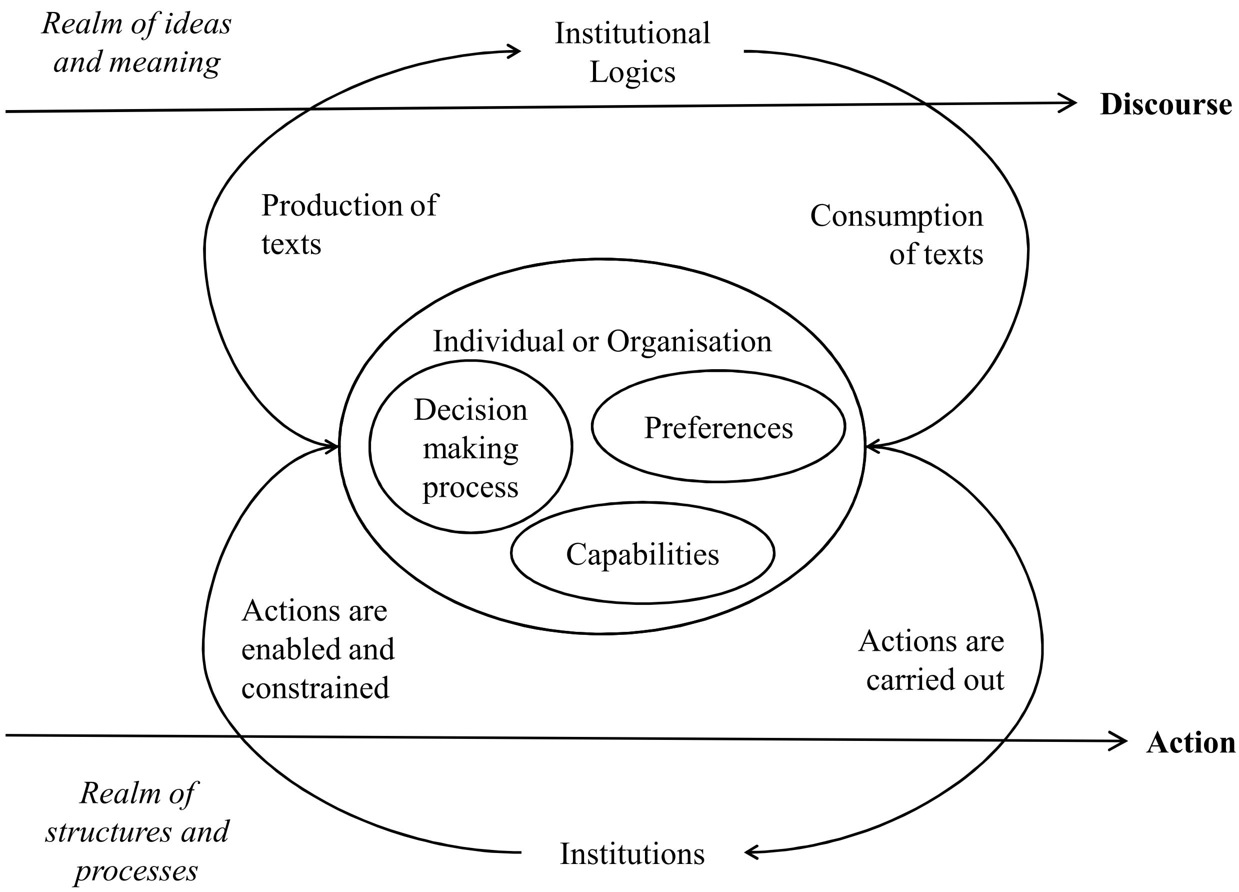

Figure 1: How discourse and action influence organisational decision-making

Codes of practice are produced by regulatory (e.g. Securities Commission), professional (e.g. Institute of Directors) and investor (e.g. Shareholders' Association) bodies. Corporate scandals have lead to the institutionalisation of codes of practice (Enrione et al., 2006). Both discourse and action is influenced by codes of practice. The issuers of these codes of practice exert coercive and normative pressure on publicly listed companies to conform to their recommendations. Point and Tyson (2006) and Crombie (2009) found that codes of practice and corporate annual reports use the same remuneration rationales. However, these studies did not examine the decision-making of boards of directors and remuneration committees. Mimetic pressure may also be influencing companies to use the same remuneration rationales. Also, while companies use the remuneration rationales to publicly justify their decisions, boards of directors may not use different remuneration rationales to privately justify their decisions.

4. Research Method

The main objective of this research is to test Zajac and Westphal's (2004) claim that agency logic, not corporate logic, dominates organisational decision-making regarding executive remuneration. The research questions are: What institutional logics do organisational actors use to understand and make decisions? How do these institutional logics influence organisational decision-making? A qualitative research method is employed. Executives and non-executive directors are interviewed to understand how boards of directors (and remuneration committees) of publicly listed companies determine how and how much to remunerate executives as well as what to disclose to the public. Remuneration consultants are also interviewed as they provide data and advice to non-executive directors. Further, representatives of issuers are interviewed as they produce codes of practice which shapes the discourse on executive remuneration.

33 individuals were interviewed including 5 executives, 16 non-executive directors, 6 remuneration consultants, 1 recruitment consultant, and 5 representatives of issuers. Several interviewees could be included in multiple categories, as of the 16 non-executives directors, 9 are former executives, 2 are consultants, and 2 are representatives of issuers. The executives and non-executives directors represented 38 companies that are or were listed on the New Zealand Exchange (NZX). The non-executive directors have held on average 3 directorships in NZX listed companies, and in total several directorships in Australian listed companies. The consultants represented 4 consulting firms. The representatives of issuers represent 3 issuers of codes of practice. The interviews lasted 42.5 hours in total or 77 minutes on average. The interviewees are not identified in the research. Quotes from the interviewees are presented in italics.

The interviews were semi-structured and conducted in person, on the telephone, or on Skype. All of the interviewees were send an information sheet, a list of general interview topics, and consent forms. Prior to each interview, the interviewee gave verbal or written consent for the interview to be recorded. The interviews covered a range of topics including the principles of remuneration, remuneration committees, disclosure in annual reports, annual general meetings, regulations and codes of practice, shareholders and analysts, the media's reporting of executive remuneration, etc. While interviewees were asked broadly the same questions, the researcher asked many unscripted questions as the interviewees raised points of interest. The final topic covered in each interview was the remuneration rationales, if time allowed. The researcher described the remuneration rationales and then asked for the interviewees' comments. Often the interviewees had mentioned the remuneration rationales earlier in the interviews, so the interviewees merely stated if they agreed or disagreed with each of the remuneration rationales.

Discourse analysis is the study of "the constructive effects of discourse through the structured and systematic study of texts" (Phillips and Hardy, 2002, p.4). Discourse analysis is both theory and method. The claims to knowledge of discourse analysis are embedded in the theoretical framework (see figure 1), as discourse constructs the social reality of organisations. The interview transcripts are also texts and form part of the discourse on executive remuneration. Through multiple close readings of the texts, the researcher sought to understand how the interviewees think about executive remuneration. The researcher also documented interviewees' professional experience. Commonalities and differences between the interviewees were identified and analysed. The discourse analysis allowed the researcher to understand what remuneration rationales the interviewees used and how the interviewees made decisions. Also, the researcher examined what, if any, institutional logic/s were underpinning the discourse of the interviewees.

5. Findings

Among New Zealand's publicly listed companies, the structure of executive remuneration and the process by which it is determined is homogenous. The main components of executive remuneration are salary, short-term incentives (STI) and long-term incentives (LTI). Salary and total remuneration is set in reference to comparable positions in other organisations. STIs are based on financial and non-financial performance, and are paid out in cash and shares. LTIs are conditional shares or share rights with vesting periods of three to five years. Variable components of executive remuneration are based on organisational strategy. Remuneration committees gather intelligence from consultants and through director networks, and draw on a common set of rationales to justify their decisions. While codes of practice do not influence these decisions, regulations and listing rules do influence what is disclosed. Stakeholders such as shareholders, analysts and media act as a constraint on the decision-making of remuneration committees, as they do not want to make decisions which are seen as illegitimate or outside the realm of the taken-for-granted. These discourse and actions are mapped in figure 2.

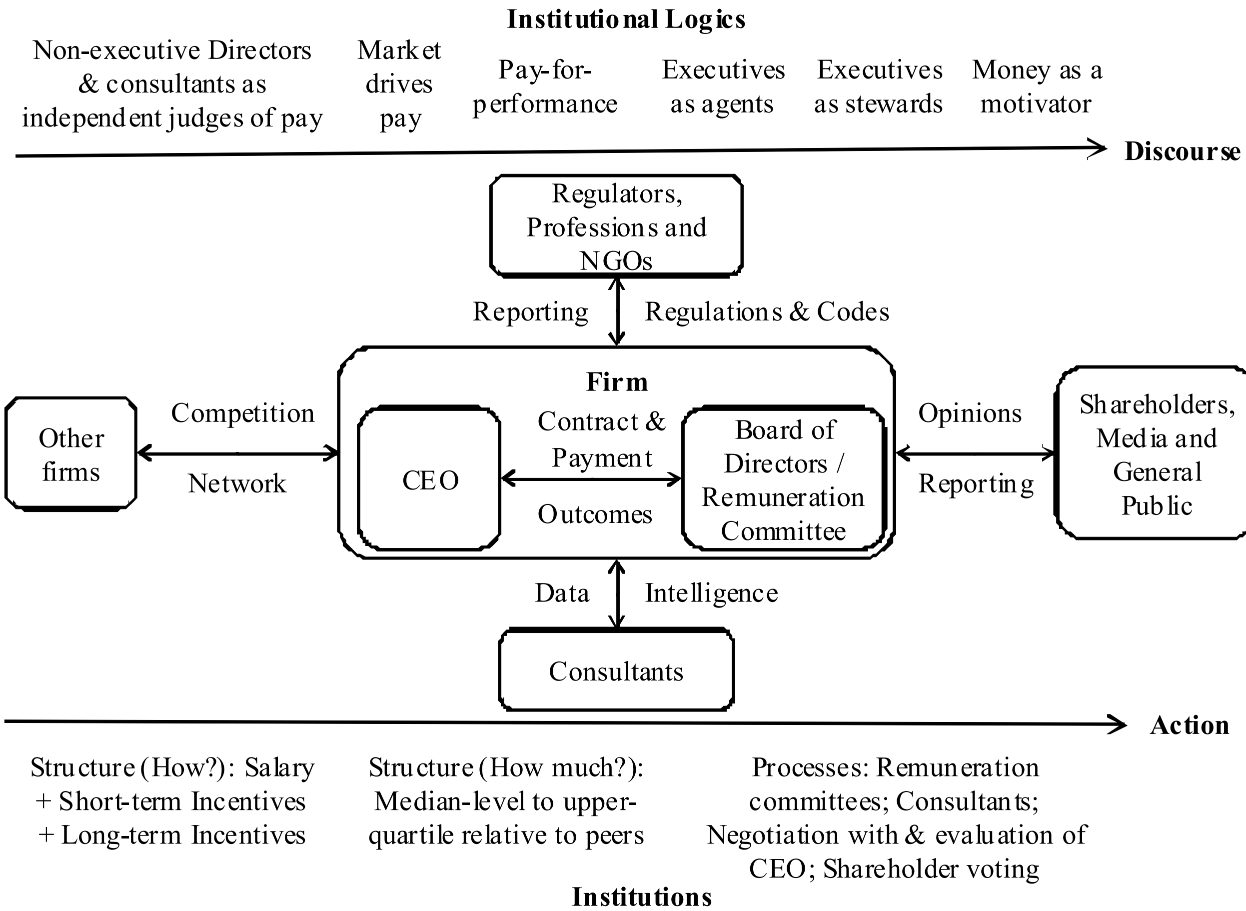

Figure 2: How Executive Remuneration is Determined in New Zealand Publicly Listed Companies

The processes and structures that constitute executive remuneration and the rationales used to justify these processes and structures are detailed in table 3. There are many alternatives within these processes and structures, but there is much commonality. There are many rationales used to justify which alternatives are chosen, but there are few rationales. All non-executive directors except one believed that executives should be paid between median and upper-quartile pay relative to their peers depending on their level of performance; whereas one non-executive director believed that executives should receive lower-quartile pay relative to their peers as executives are also driven by non-financial and intrinsic rewards. However, this non-executive director believed that they did not sit on any remuneration committees because their opinion varied from the generally accepted or taken-for-granted view.

The agency and corporate logics are embedded within the discourse on executive remuneration and provide the underlying rationale for the existing structures and processes (see table 3). Amongst New Zealand companies, a shift from corporate to agency logic is not evident as both logics are prominent. Non-executive directors are both the shareholders' representatives and the executives' partners. However, non-executive directors view themselves and executives as working together to add shareholder value and knowledge stewards that are entitled to professional autonomy. For example, a non-executive director commented, "*Regulators always regulate too much, they ask for too much material, too much detail, they totally loose the plot as to what really matters…*" This sentiment is common among executives and non-executive directors and extends to their view of analysts and shareholders as well. While the agency logic is present in the discourse, the corporate logic is dominant. Non-executive directors and executives share similar beliefs and ideas about executive remuneration because non-executive directors tend to be either former executives or advisors to executives.

Institutions	Institutional Logics
Structure (How much to pay?) - Basic approach, or - Complex approach (job evaluation method)	Non-executive directors and consultants are independent judges of CEO pay; They are able to objectively determine how much a CEO should be paid (agency and corporate logic)
Structure (How to pay?) - Mix of components - Salary - Short-term incentive (STI) - Long-term incentive (LTI)	Rationales embedded with the discourse on executive remuneration: Agency logic – Agency, market, consultant, pay-for-performance, and motivation; Corporate logic – Human resources, market, consultant, responsibility, and fairness
Processes – Internal - Appointment of a CEO - Setting a CEO's remuneration - Setting a CEO's targets - Review an executive's performance	While non-executive directors are shareholders' representatives (agency logic), they also are executives' partners (corporate logic)
Processes – External - Annual report - Annual general meeting - Responding to analysts and shareholders - Responding to media and public	While non-executive directors want to disclose information to shareholders (agency logic), non-executive directors also feel that analysts' and shareholders' demands for information can be excessive (corporate logic)

Table 3: Institutional Logics and Institutions

The process by which remuneration committees determine executive remuneration is quite homogenous. One non-executive director summarised the process as follows:

> "*You'd then decide your strategies ex cetera for the next five years… your remuneration would flow out of that… But as you address the remuneration issues… you almost have in your mind the pressures, you know, from*

> *society, whether they be pressures from politics or the media… And so, you know, you end up with a bit of a compromise.*"

In setting executive remuneration, there are two processes which remuneration committees reconcile. First, there is a process of rational decision-making (Cyert and March, 1992), where organisational strategy influence what performance measures, targets and incentives are used. As one CEO commented, "*we've always got a range of targets that are usually fairly highly aligned with our strategic plan's targets.*" The process that executives and non-executive directors described matched those described in management and accounting textbooks (Anthony and Govindarajan, 2007; Hanson et al., 2005), and by Ferreira and Otley's (2009) performance management framework. Second, there is a process of rule-based (or legitimacy-based) decision-making (March and Olson, 2006), where remuneration committees make decisions, or at least disclose decisions in a way, that conforms to stakeholders' expectations. Non-executive directors believed that the most influential or powerful stakeholders are regulators, analysts and shareholders. For example, one non-executive director remarked that they could not recruit a US executive to be CEO because the US executive's pay expectations were far higher than what shareholders would tolerate, so a local candidate was recruited to be CEO.

Non-executive directors have to reconcile what they believe to be a rational choice with what they believe to be appropriate (i.e. societal expectations). The perceptions of executives and non-executive directors of what is rational are shaped by their experiences and the opinion of their peers and consultants. When discussing how much codes of practice influenced decision-making, one non-executive director noted that, "*the weight goes on the way I have seen it done… [and] the independent consultant, rather than the regulatory body providing tones of opinion.*" However, some non-executive directors believed that consultants are simply used to legitimise the board's decisions to shareholders. For example, one consultant commented, "*The key thing is that people require an external validation of remuneration.*" Non-executive directors believe that they can motivate executives to add shareholder value through the use of remuneration schemes that are comparable to their peers; whereas, non-executive directors believe that satisfying the demands of shareholders, analysts, regulators, etc is a constraint and does not add shareholder value.

Executives, non-executive directors, consultants, and representatives of issuers use remuneration rationales to understand and explain executive remuneration. These rationales are related to agency and corporate logic, and include agency, pay-for-performance, motivation, market, consultant, human resources, responsibility, and fairness. The interviewees used the rationales to justify their beliefs and decisions they had made. For example, when discussing the company's LTI, one CEO argued that, "*[it makes] you think like a shareholder so you care about the share price. It also aligns your interest in the best terms and the long term with the shareholders.*" When these rationales were outlined to the interviewees at the end of the interviews, the majority of interviewees believed that the rationales represented the principles of executive remuneration. This highlights that agency and corporate logics have become taken-for-granted. However, the rationales that are consist with the corporate logic are often prioritised ahead of those consist with the agency logic. The most emphasised rationale is that of the market, as one non-executive director expressed, "*if you don't stay competitive then you risk losing your best people*".

The agency rationale (part of the agency logic) states that LTIs such as shares or share rights can align the interests of executives with those of shareholders. Many interviewees used the agency rationale during the interview or agreed with it when asked. For example, when outlining the key concepts of executive remuneration at the beginning of the interview, one non-executive director stated that, "*We really try align to their [executives'] motives, their incentives with the shareholders, and those are for long term steady growth and returns…*" However, some interviewees believed that incentives scheme cannot fully align the interests of executives with those of shareholders because executives face no downside risk when performance (or the share price) falls. Executives still receive their salary and often a portion of their STIs even when performance is poor, whereas shareholders can lose a significant portion of their wealth.

The pay-for-performance rationale (part of the agency logic) states that executives' pay should vary with performance. "*The trick is, as I've said, how do we define performance?*", as one non-executive director explained. Performance is generally defined in financial terms such as revenue and profit. The majority of interviewees believed that executives, particularly the CEO, can influence firm performance. However, the main problem is that incentives can work too well, as one non-executive director remarked, "*People are rational. If you set up performance pay that focuses on a narrow definition of success, you will get the behaviour that leads to that outcome*". Further, some interviewees believed that economic factors have the most influence firm performance, so that executives have to work harder when firm performance is poor and vice versa. These interviewees argued that incentive schemes are profit sharing schemes in disguise. Variable pay is linked to performance measures that executives cannot necessarily control because shareholders want executives to be held accountable for firm performance.

The underlying assumption of agency logic is that executives will exert effort when they believe doing so will lead to monetary rewards. This motivation rationale is embedded in the discourse of many of the interviewees. For example, money can motivate executives, as one CEO explained:

> "*One year the board decided to give me a double STI; it's only $50k… it's not enough money to fundamentally alter your level of motivation. Contrast that [to a larger company], once I got to the senior rank, the amount of money available on STI became very material. One year I got $700k, I think. Then there's no question that sort of amount of money motivates your attempts to deliver. No question!*"

The interviewees believed that executives have differing motivational profiles. Some are motivated by money and status, whereas others are motivated by the challenge and enjoyment of the job. For example, one non-executive director and former CEO believed that the challenge of job outweighed the importance of money:

> "*It's the puzzle really… Decision-making under uncertainty, and trying to get it right… The best CEOs are the ones that are just passionate about business… Those who want to be CEO, they'd do the job for half the pay of being deputy CEO. Of course you would. The job is so fantastic. You're going to turn it down because of pay? Give us a break.*"

The interviewees believed that executives are motivated by extrinsic and intrinsic rewards, but all executives are not motivated by the same factors and to the same degree. Some interviewees believed that incentives are used not to motivate executives, but are used by the board of directors to justify the level of remuneration to themselves and shareholders. One CEO explained:

> "*You are basically saying people will hold back from doing the best job they can unless you hang a carrot in front of them. I find that offensive! …The remuneration committee and particularly a board would find it hard to pay market remuneration if it was fixed… So, to get you to the total you need to be competitive, senior executives have an at-risk proportion… [But] I don't think it really changes people's behaviour.*"

The market rationale overshadowed the other rationales. It is the most emphasised and often the first rationale to be talked about during the interviews. When asked about what are the key guidelines or principles of remuneration, one non-executive director responded:

> "*In the end, it is always a trade off between ensuring you retain talent or good talent, and not over paying. So there is a temptation if you got a very, very strong performer or performers, maybe you start pushing boundaries… But I am nervous about really pushing the boundary and paying people well beyond the market…*"

The market rationale appears to fit with the agency logic, which draws on the higher-order cultural frame of capitalism (Friedland and Alford, 1991). The agency logic argues that markets can allocate resources more efficiently than management. The market rationale states that firms compete for managerial talent with other firms, and have to pay competitively. The market rationale assumes that the market for managerial labour is efficient in pricing (or remunerating) a CEO. However, some interviewees disagreed with these assumptions, as one CEO explained:

> "*In New Zealand, most of your businesses are actually de-facto government departments. The idea of a war for talent and needing to compete for the best people to run those is actually a load of rubbish… We tend to sort of apply that idea that the market rules the pay and you go [through] those silly job sizing exercises…*"

The market rationale fits better with the corporate logic than the agency logic. The market for managerial labour in New Zealand is controlled by non-executive directors, not shareholders. While the corporate logic does not state that non-executive directors and executives will make self-serving decisions, non-executive directors have a managerial perspective in remunerating executives as they are former executives and advisors to executives. The non-executive directors interviewed believed that only they have the expertise to remunerate executives. Shareholders, regulators and the public are not able to remunerate executives because they have not worked as executives and do not understand the complexities of the job. For example, one non-executive director remarked that, "*if [shareholders] don't like the CEO's remuneration package, just sell your shares.*" These arguments support the corporate logic and managerial capitalism.

Non-executive directors employ consultants for two reasons: to gain access to intelligence about what their peers are paying executives and to legitimise their decisions to shareholders. The consultant rationale states that remuneration consultants can provide an objective, independent assessment of executive remuneration. The majority of publicly listed companies in New Zealand and overseas employ remuneration consultants (Conyon et al., 2009; Crombie, 2009; Wade et al., 1997). However, interviewees suggested that using remuneration consultants has led to an upward pressure on the level of executive remuneration. One non-executive director explained:

> "*[Remuneration consultants'] incentive was to bid the whole market up as much as you could. So… why did the prize get so big? Who was benefiting from the prize? Clearly, the appointed CEO was benefiting, but I suspect the hidden agent in all of this is recruitment agencies and remuneration consultants.*"

The human resources rationale is tightly coupled with the corporate logic. It states that executives are knowledgeable stewards, who can be trusted to make decisions to maximise shareholder value without the need for incentives (or coercion). The vast majority of interviewees shared this view of executives. For example, one non-executive director argued:

> "*Good people are the ones you do not want to lose… [The difference between] what a good performer costs to retain and what can actually be delivered is just is not even worth spending any time talking about it.*"

Although interviewees also acknowledged that some executives are self-serving and do not act in the best interests of the company. For example, one non-executive director described how executives in one company put their own interests first: "*[The decision] was driven by the Chief Executive wanting to, you know, make sure they got their bonuses for that quarter.*"

The responsibility rationale is also tightly coupled with the corporate logic. It states that remuneration should be tied to an executive's level of responsibility. Generally, executives in large organisations have more complex jobs as they oversee many people, processes and assets. The responsibility rationale explains why firm size and executive remuneration are highly correlated (Tosi et al., 2000). However, some interviewees argued that the positive relationship between firm size and executive remuneration is not desirable. Firm size is not necessarily a proxy for job complexity. There should be a positive relationship between responsibility and executive remuneration, but it is difficult to measure responsibility. Consistent with the corporate logic, non-executive directors argued that they are the only people able to gauge executives' level of responsibility. One non-executive director explained:

> "*[It is a] question of complexity. Often big is seen as the definition that drives remuneration and typically there's correlation between CEO remuneration and revenue... The problem is how do you measure complexity? …Running a very large but very simple business may actually be less demanding and there may be a larger pool of eligible candidates than running a somewhat a much more complex business.*"

The fairness rationale states that executive remuneration should be fair, reasonable and equitable. It is consistent with the corporate logic and duplicates the market rationale because executives, non-executive directors, and consultants define fairness in terms of horizontal equity. For example, one CEO commented that, "*fair and reasonable in my mind would be when there're no serious anomalies in what we… and someone else might be paying for the equivalent similar job.*" Vertical equity is not a significant concern to remuneration committees. Additionally, fairness is defined in terms of performance, and duplicates the pay-for-performance rationale. One consultant pointed out that, "*There are some people saying fair is equal… and others say equitable in terms to [the executives'] contribution to the business.*" Further, fairness is defined in terms of legitimacy, as one non-executive director explained:

> "*[In determining executive remunerating] you'd say, 'Well, given our size, given our turnover and our earnings growth and stuff like that, are we reasonably, fairly positioned?' And in most cases, we say, 'Would the chairman feel comfortable justifying this to the media or to shareholders at an annual meeting or a special meeting or whatever?' And that's the test.*"

Embedded in the discourse on executive remuneration are a multitude of rationales, which are taken-for-granted and fit with agency and corporate logics. While the rationales are taken-for-granted, the interviewees do challenge the underlying assumptions. The rationales represent a pool of ideas that non-executive directors draw upon in making decisions and give them much flexibility. For example, the comparator group is not defined in the market rationale, performance is not defined in the pay-for-performance rationale, and fairness is not defined in the fairness rationale. While non-executive directors do have considerable flexibility in defining these terms and, ultimately, determining how and how much the CEO is remunerated, they are constrained by societal expectations. However, what is taken-for-granted is influenced by non-executive directors, consultants, shareholders, regulators, the media, etc.

There are several reasons why non-executive directors draw on the rationales in making decisions. First, they may perceive there to be no viable alternatives, as the rationales crowd-in and crowd-out what is appropriate. Second, they may believe that certain rationales are true (or lead to better outcomes than other rationales). Third, they may use the rationales to justify decisions that produce outcomes they desire, even though they do not believe the rationales are true. For example, the pay-for-performance rationale will be used to justify bonuses to shareholders, even though a remuneration committee may believe that incentives do not alter the behaviour of executives. In this way, taken-for-granted rationales can be used to maintain the power or legitimacy of executives and non-executive directors.

6. Discussion

Zajac and Westphal (1995, 2004) found that the institutional logic embedded in the discourse of US corporations changed from corporate logic to agency logic in the mid-1980s. Crombie (2009) found that amongst the largest 50 publicly listed companies in Australia, New Zealand and the United Kingdom that this change is not evident. Instead, both institutional logics were present in the discourse on executive remuneration. Similarly, this paper's findings indicate that both institutional logics are present in the discourse of executives, non-executive directors, consultants, and representatives of issuers. However, the findings also indicate that the corporate logic is more prominent than the agency logic. Non-executive directors believe that they are able to determine how best to remunerate executives, and shareholders and regulators should trust them to do this task. Although the agency logic is embedded within the discourse on executive remuneration as the vast majority of non-executive directors espoused or agreed with the agency rationale at some point during the interviews.

Crombie (2009) postulated that coercive (e.g. laws) and normative (e.g. codes of practice) pressure lead public listed companies to adopt remuneration rationales as principles or policies within their annual reports. Note that New Zealand's codes of practice are voluntary, except the NZX's code but it does not mandate how to remunerate executives. However, the findings of this research indicate that executives and non-executive directors are either unaware of the existence or contents of the codes of practice, or dismissed the codes of practice as unhelpful. For example, one non-executive director admitted that, "*I couldn't cite you the document, neither of them, to be honest. I probably should be able to, but I am not the chairman of the remuneration committee anymore.*" At least in New Zealand, codes of practice appear to be a reflection of other codes from around the world and what issuers of the codes perceive to be best practice. In other words, normative pressure is weak. Mimetic pressure is far stronger as non-executive directors are concerned with how their peers are remunerating executives. Consultants reinforce this mimetic pressure by providing non-executive directors with intelligence on what their peers are doing.

Mimetic pressure has lead to remuneration committees in New Zealand publicly listed companies having processes and structures. All of the companies except one, which the non-executive directors had been involved with, employed remuneration consultants to gather intelligence on their peers. All of the companies had similar processes for setting and reviewing executive remuneration. All of the companies remunerated their executives with a mix of salary, STI (mainly based on financial performance), and LTI (mainly based on share price performance). The interviewees viewed these processes and structures as taken-for-granted. These processes and structured are reproduced because the interviewees used the same set of remuneration rationales, particularly market, consultant, human resources, responsibility, fairness, motivation, pay-for-performance, and agency. Non-executive directors believed that in applying these remuneration rationales they are able to maximise shareholder value. They argue that the aforementioned processes and structures are rational and logical. However, non-executive directors do acknowledge that their decision-making is constrained by societal expectations, particularly those of shareholders. Therefore, the decision-making of remuneration committees is both rational and rule-based (Cyert and March, 1992; Olsen and March, 2006).

While mimetic pressure has reduced variation in the processes and structures that constitute executive remuneration, change is continual. All non-executive directors commented on the trend from mainly fixed pay to mainly variable pay, and the increasing disclosure requirements. Further, some companies want to known the leaders in best practice and disclosure, so they follow international trends in executive remuneration. Some interviewees commented that New Zealand follows Australia, who follows the UK and US. This process of institutional change is leading to the convergence of best practice (Aguilera and Jackson, 2010). External events such as the global financial crisis can also lead to institutional change as organisations and actors have to adapt to changing economic and political environments (Greenwood et al., 2002). For example, one consultant commented that, "*[during] the Global Financial Crisis is the first time that people have taken pay reductions… that is once in a hundred years.*" However, this research has not studied how the process of institutional change occurs, particularly in terms of institutional logic.

7. Conclusion

Executives and non-executive directors draw on remuneration rationales to legitimise their companies' executive remuneration practices. The remuneration rationales are: agency, consultant, fairness, human resources, market, motivation, pay-for-performance, and responsibility. As these rationales are all legitimate, non-executive directors have a lot of flexibility in deciding how and how much to remunerate executives. However, the human resource and market rationales dominate the discourse of non-executive directors. These rationales form part of the corporate logic, which assumes that non-executive directors have expert knowledge in how to remunerate executives. The market rationale forms part of corporate logic, rather than agency logic because the market for managerial talent is controlled by non-executive directors, who are former executives and advisors to executives, rather than shareholders. While Zajac and Westphal (1995; 2004) found that US companies have transitioned from corporate to agency logic, this study shows that while New Zealand companies draw on both logics, the corporate logic is dominant.

A theoretical framework is developed in this research (see figure 1) to explain how institutional logic and institutions influence organisational decision-making. Organisations are both enabled and constrained by institutional logics and institutions. The findings show that mimetic pressure, embodied in the market and consultant rationales, has led companies to imitate their peers. The corporate logic is embedded in the beliefs and thinking of non-executive directors through their experiences and the opinions of others. The agency logic is also embedded in the discourse on executive remuneration. However, some interviewees suggested that the agency rationale and LTIs are used symbolically to appease shareholders, while simultaneously raising the level of remuneration to what executives perceive to be competitive. Again, the corporate logic dominates the discourse on executive remuneration. While the findings explain why organisational decision-making reproduces existing structures and processes, it does not explain how the corporate logic become to dominant the discourse on executive remuneration, and whether there will be a move towards the agency logic in the future.

The findings show that non-executive directors have much discretion in determining executive remuneration. The executives and non-executives directors interviewed certainly believe that they are trustworthy and act in the best interests of companies. They often said that maximising shareholder value in the long-term is their main objective. However, the awareness of codes of practice such as those issued by the Securities Commission, Institute of Directors, New Zealand

Shareholders' Association, and Minter Ellison is limited. Also, dominance of the market rationale can lead to upward pressure on executive remuneration because it is set at the median to upper-quartile level. Non-executive directors did not believe that their executives are below average performers, yet some executives are by definition. To overcome these problems and others described in the paper, regulators could consider adopting a mandatory code of practice. But the code need not be prescriptive, as both Australia and the UK have 'comply or explain' approaches, which allows companies to vary from the code as long as they explain why.

The main limitation of this research is that executive remuneration has not been quantitatively studied. The remuneration rationales postulate how and how much executives should be remunerated. Similarly, the interviewees often expressed opposing arguments, which they suspected to be true. For example, the market and consultant rationales lead to upward pressure on the level of remuneration. Future research should study the empirical validity of these arguments. This research explains the pay-for-performance paradox; that is, why is there no economically significant relationship between CEO pay and firm performance when the vast majority of firms have a policy of pay-for-performance? The dominance of the market rationale trumps the pay-for-performance rationale, as total remuneration must always be median or above. However, future research is needed to empirical test this argument.

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